

An Evaluation of Villgro Kenya Executive Summary December 2019

Prepared by Enabling Outcomes Ltd.

About Villgro Kenya

Villgro Kenya started operations in April 2015, with a mission to solve Africa's toughest health challenges through inspiring and supporting early stage, innovation-based social enterprises. The organization provides mentorship, funds and support to these businesses, adapting Villgro Innovations Foundation's (VIF) proven incubation model from India to the East African context. Villgro Kenya positions itself as a highly active and hands-on investor. The support offered is for a minimum of 2 years and in some cases is extended.

The target business that Villgro Kenya seeks to incubate is based on the following criteria:

- A business developing a healthcare innovation. This would ideally be a product innovation, but could be a service innovation such as healthcare finance, a systems intervention, or improvement in primary care delivery. The innovation would provide significant benefits to people at the economic base of the pyramid and marginalized populations.
- A market-driven commercial model with potential to scale that demonstrates viability and sustainability including the ability to raise further investment.
- An ambitious and hard-working entrepreneur that has a vision and the capabilities and potential to build his or her team to help execute the vision.

Villgro Kenya aims to have 50 businesses apply for incubation in a given year. The team then filters that pipeline down and conducts due diligence activities on a smaller number with the intention of adding five businesses to its portfolio per year. The filtering of the pipeline starts with a rapid assessment to make sure the business meets the profile of Villgro Kenya. The team then conducts further screening. If the business appears to be a good fit, an extensive and intensive due diligence process will last approximately two to three months. A highly qualified investment committee then makes the final decision on incubation.

Entrepreneurs cited the due diligence as one of the most valuable components (if not the most valuable component) of Villgro Kenya. The due diligence process challenged them to consider their market opportunity, business model, and their commitment as an entrepreneur to the business. For less developed businesses, the due diligence process helped set up the infrastructure for the business, put basic policies in place, and set up audited accounts. Now that businesses are engaging with investors, they recognize the value of the due diligence process that they went through with Villgro Kenya and how it prepared them for investor engagement and critique.

Villgro Kenya Support

Villgro Kenya describes its work as developing a micro ecosystem to enable entrepreneurs to succeed. The organization believes it prevents the death of the innovation pipeline by offering intensive support to these entrepreneurs at an early stage. Villgro Kenya support consists of:

- A grant (usually in the amount of USD \$40,000), which is disbursed against agreed-upon milestones.
- Active engagement from the Villgro Kenya team, who work closely with the entrepreneurs on the realization and execution of a business model, product development, and assessing the financial needs and funding strategy.
- Diagnostic panels that leverage experts such as experienced professionals, customers, and investors. These experts are convened by Villgro Kenya with the entrepreneur to solve a specific challenge a business is facing.
- Mentorship through external advisors who provide advice and support to the entrepreneur.
- Access to various organizations in the ecosystem that can help the business.
- Access to investors who provide feedback to businesses and may provide further investment.

Key Elements Evaluated

Grants

The grant is key for early stage businesses. It is a “make or break” for many, providing the necessary runway for actively pursuing further investment. It also is an incentive for businesses to apply to Villgro Kenya. While the entrepreneurs appreciate that Villgro will not disburse all of the money at once, the disbursement process and amounts is cited as a pain point for entrepreneurs. Villgro Kenya should re-evaluate how it can distribute the grant in a more entrepreneur-friendly way.

Business Coaching from Villgro Kenya

The business coaching that Villgro Kenya offers can be very valuable. However, from the perspective of entrepreneurs, Villgro Kenya needs to get the balance right between encouraging and coaching versus telling and doing. Villgro Kenya needs to customize to each individual case to get the frequency, pace, and intensity right and to assess whether an individual investment manager is adding value to that particular business.

Diagnostic Panels & Mentoring

Diagnostic panels are a convening of experts to help solve a business challenge. Mentors are individuals in the Villgro Kenya community that provide one-to-one support to the entrepreneur. Both of these offers have merit, but suffer from Villgro Kenya’s lack of networks and gravitas to attract the right people. They need to expand the quantity and quality of mentors and those that serve on diagnostic panels. If they can get the right people, they should have better outcomes from the panels and mentoring, increasing the value of the offer.

Access to Finance

The access to finance offer connects entrepreneurs to investors interested in the region and sector. Villgro Kenya has strong relationships with a handful of key investors who

interact with the entrepreneurs at various stages in the incubation process. This is a good start, but entrepreneurs are asking how can Villgro Kenya support them to connect with grant makers? Another question that surfaced through the evaluation is how can Villgro Kenya help educate investors about health innovation? Lastly there was a question about how Villgro Kenya manages the intermediation between the business and the investor? These questions all need to be answered to improve the offer.

Business Performance

As Villgro Kenya recognizes that it works with high-risk early stage businesses, the organization has framed portfolio business success as:

- 40% thriving (have 12 months runway or 50% year-on-year revenue growth)
- 40% surviving (have 10% year-on-year revenue growth or 1-12 month runway)
- 20% failing (<1 month runway)

In Villgro Kenya's reporting to Argidius as of end of June 2019, it reported 2 companies thriving, 4 companies surviving and 4 companies failing (percentages of 20%, 40% and 40% respectively). However, some businesses raised funding in July, August, and September so by end of 2019 Villgro Kenya should be hitting these targets.

Villgro Kenya's portfolio businesses have had some good success stories when it comes to raising capital. Three businesses have raised USD \$1million+ in equity and one will most likely be receiving over USD \$1 million in grants, with others raising a number of small grants. However, the attribution and contribution that Villgro Kenya can make to these raises is not as strong as one would hope.

Value Proposition from the Business Point of View

When asked about how Villgro Kenya has helped, entrepreneurs (in addition to citing the grant) mentioned:

- They helped us clarify the value proposition.
- We now have a much better business model.
- We had too many things going on: they helped us focus.
- They gave us the focus to go further faster.
- We had a great sounding board to test ideas.

There is no doubt that there is a contribution that Villgro Kenya is making to the business model and focus of these young businesses.

Villgro Kenya's Future Ambitions

Villgro Kenya has big ambitions that also come with potential challenges. The first is around focus. When challenged with the question about focusing on healthcare more broadly or exploiting the niche of health product innovations, the answer is "we will do both". The idea from Villgro Kenya's leadership is to dominate the health ecosystem in its entirety. They see limits to choosing just health product innovations. They want to be the solution for any and

all health innovation in East Africa to eventually be in a position to advocate for policy change.

The organization recognizes that they need to help build future pipeline. They endeavor to offer courses, boot camps, and sponsor more events. They also need to build more partnerships, particularly with universities, and create more visibility in the market. They also need to somehow dig deeper to find more pipeline or even help build teams to fill gaps in technology, health, and business acumen to make the business a viable proposition.

Stakeholders are supportive of Villgro Kenya taking a more active role in the health ecosystem. They are eager for Villgro Kenya to share their insights more openly, frequently and broadly within East Africa. They believe that Villgro Kenya has lessons learned and the community is eager to learn and grow with Villgro. They feel there is a knowledge void in the market that Villgro Kenya could fill.

Sustainability

Villgro is dependent on fundraising to cover its operating costs. It also needs money to offer grants to businesses, which is a key offer that brings in entrepreneurs and delivers value as a lifeline and catalyst for early-stage businesses. Currently there are three major funders and some of that funding is coming to an end. There is a clear need for Villgro to diversify their funder base and get money in as quickly as possible so that there are no gaps in delivery. It is estimated that it costs about \$30,000 to support one business over the course of two years in addition to the \$40,000 grant.

Consulting is targeted as 20% of the operational budget, which brings in \$50,000 per year. Consulting clients include donors, NGOs, and corporate clients that are interested in entering the Kenyan market. Team members are heavily involved in the delivery of this work. Villgro Kenya justifies this work as not only does it help bring in revenue, but it also builds team skills and expertise, reputation and networks, and in some cases develops potential pipeline. The management and board do not believe it is a distraction from delivering the core work for their incubatees.

Villgro Kenya hopes to improve its sustainability outlook through using SAFEs (simple agreement for future equity) in addition to or in lieu of grants. They are also exploring raising a fund. Although these are models that could solve the sustainability challenge in the long term, it does not solve the short-term need for large grants to sustain the operation.

Conclusions

Villgro Kenya is filling a need in East Africa in the healthcare innovation space. All of the entrepreneurs were quick to say they are grateful for Villgro Kenya—there is no other place to go for high quality support for their early stage healthcare innovation businesses. The due diligence process and grants are clear value-add instruments that help put businesses on the road to survival and hopefully to success. Entrepreneurs appreciate having an advisor, sparring partner, and cheerleader on their side. Most of them are making slow but steady progress on moving their products and services to the market.

Villgro Kenya needs to improve its support beyond the due diligence. These improvements will most likely not come from the Villgro Kenya team itself, but from the networks, mentors, partners, investors, and grant makers it can crowd into its ecosystem. Having these networks, mentors, partners, etc. will also help to build the quantity and quality of the Villgro Kenya pipeline. This ecosystem building can only happen however if Villgro Kenya is focused and knows who and what they are targeting.

Villgro Kenya's biggest challenge is its lack of future funding. The organization is under threat if it doesn't get more donors. Not only does it need funding for its operations, but it also needs funding for the grants it provides to businesses. Fundraising should be the primary focus of the management team and board.

A good team is in place and they will thrive with more development and coaching. A savvy investment committee backs up the team with considered decisions. An advisory board is needed however to better help sharpen focus and shift to a more externally facing organization.

The sustainability plan needs more thought. Equity makes sense, but is it enough to cover costs and will they reach sustainability soon enough to meet donor expectations? Consulting revenue is not significant enough to solve the sustainability issue and might be at times a distraction from the core offer.

Villgro Kenya is a young organization that is finding its feet. Now that it is entering its next stage of development, it needs to be more strategic and more disciplined in its execution. It needs to follow the advice it gives to its entrepreneurs: focus and execute on the plan.

Recommendations

The following are key recommendations for Villgro Kenya to consider for the future.

Find focus and from that focus build the ecosystem and network needed. Villgro Kenya should strongly consider a focus on healthcare hardware innovations. This is a unique niche, leverages VIF's experience and expertise, aligns to The Lemelson Foundation's goals as a core funder, leverages strong partners such as Gearbox and Uganda Industrial Research Institute, and has incredible long term potential as a business opportunity for East Africa. From that "stake in the ground" Villgro Kenya can build a community (including leveraging India), build a focused ecosystem(s) around this niche in Kenya and Uganda, and crowd in mentors, partners, government entities, universities, technical institutes, and corporates to increase the pipeline and paths to market.

Improve the value proposition and delivery of the core incubation services. Improvements would include easing restrictions around the grant, looking at cost/value of the support beyond the due diligence, creating peer-to-peer opportunities and a Villgro community, facilitating connections to grant money, and strengthening the pool of potential investors.

Build and develop an empowered and better gender-balanced team. Villgro Kenya should consider recruiting a female COO. It should also invest in skills development and coaching

for the team so that they can better communicate with the businesses with whom they interact.

Fundraise, fundraise, fundraise! All of these improvements will not produce results if there is no ongoing ability to deliver incubation services with a corresponding grant to the businesses. Building donor relationships and having a diversity of donors should be a major focus of the organization and its board.

Ensure a functioning advisory board that can assist the management team. Whether the investment committee takes on a bigger mandate or a separate advisory board is formed, the management team should have some help. This help would include: champions that are developing and mentoring the team; creating connections to build relationships with the government and partners, mentors and networks; assisting in building the brand; and most importantly fundraising.

Methodology Note

The inputs for this evaluation were:

- Interviews with the management team (3) and staff (3) of Villgro Kenya
- Interviews with 4 investment committee/board members
- Interviews with 9 entrepreneur founders of Villgro Kenya incubated businesses
- Interviews with 4 Villgro Kenya mentors/partners
- Interviews with 3 investors

The insights coming from these interviews, coupled with the evaluator's knowledge of the small and growing business landscape and evaluation of other accelerator and business development service programs, informed the observations, reflections and recommendations presented in this report. Villgro Kenya's grant proposal and subsequent reporting to Argidius was also reviewed.

Annex

Background: Healthcare & Health Product Innovation in East Africa

This annex is not based on research, but is pulled together through an amalgamation of comments from stakeholders interviewed during the course of the evaluation. This is to help contextualize some of the challenges and dilemmas facing Villgro's operations in Kenya. India is in a unique position to tackle health product innovation based on its country's talent, engineering programs, culture of product innovation, manufacturing ecosystem, and start-up ecosystem. Most stakeholders commented that these factors are lacking in vibrancy in East Africa.

Despite the lack of a strong foundation, biomedical engineering is a growing field that is gaining investment and interest in East Africa. For instance, the Uganda Industrial Research Institute has prioritized healthcare innovation. Programs are available at universities such as Kenyatta University, Strathmore, Makerere, and Kyambogo. The African Biomedical Engineering Project (funded by the EU) and other initiatives are trying to advance the field. But as many stakeholders noted, getting the technology out of labs and into markets is another challenge.

Many stakeholders mentioned the difficulty of operating in the health innovation space because of the difficulty of navigating policy and regulation. East African countries have challenging regulatory environments. Regulation requires adhering to strict ethical standards. Stakeholders also commented on the slow pace at which the government moves (sometimes allowing international companies to gain competitive advantage).

Furthermore, markets are a challenge. Many stakeholders noted that the probable customer for many of these innovations is the government (as the primary provider of healthcare in Kenya and Uganda). In Kenya, this might be the central government. But for some healthcare solutions, it might mean navigating the 47 local Kenyan counties that have authority over aspects of healthcare delivery since devolution. In Uganda, healthcare is delivered by the central government. The challenges of government include long sales cycles, navigating public procurement, and dealing with long payment times (or not getting paid at all). In both countries, the private healthcare market is very small and is geared towards wealthier citizens, which is not the target for Villgro Kenya.

One stakeholder mentioned it is difficult to depend on solutions that require selling to the base of the pyramid customer. He or she has no income to pay for products or services. A workaround to this dilemma seems to be to target the working poor who can pay for services, or in some cases selling services to SMEs which is a solution Villgro Kenya has proposed to some of its incubatees. However, this only makes sense for services and not necessarily for hardware solutions that would most likely be administered by doctors, nurses, hospitals, and trained healthcare workers. Distribution and routes to market are big challenges that healthcare entrepreneurs face in the East African context.

Stakeholders mentioned that there are many health-related businesses that need help. There was mention of private SMEs in the health space that are not necessarily innovators or start-ups but desperately need business support. These stakeholders recognize that this is not the segment that Villgro Kenya was set up to serve. They do however see it as an opportunity for Villgro Kenya's skills and interventions to help improve healthcare outcomes, but not necessarily through supporting high growth potential innovation start-ups.